

Equity Index Futures Trading Recommendations

28th October 2024

"Stay SHORT SPX - momentum rolling?"

Email: info@longvieweconomics.com

Trading Recommendation ('1 – 2' week equity index trading recommendation)

- Stay 1/3rd SHORT S&P500 December futures (entry was last Thursday at 5,861.0).
- Keep stop loss 2% above entry (at 5,978.0, which is above the 5,927 record intraday highs).

Rationale

US Treasury yields continued to back up on Friday, with the 10 year closing up 4bps at 4.25% (see FIG 1a). That was mostly driven by 10 year TIPS yields (+5bps) which closed at 1.96% (their highest level since July), while the rates market priced out 5bps Fed cuts for next year. It's now pricing 100bps of cuts in 2025 (from 169bps of cuts in mid-September).

That move higher in bond yields/rates has become a key headwind for equities, which have **lost upward momentum** in recent weeks. In particular, despite a stronger than expected earnings season*, the S&P500 has been making lower highs and lower lows since mid-October (broadly speaking, see FIG 1). That poor response to positive newsflow is a sign of a tired market (i.e. with growing downside risks). Friday's price action was interesting in that respect. That is, the initial strength in the S&P500 faded later in the session, with the index closing broadly flat.

Our **medium term models remain on/close to SELL** and suggest that momentum in US equities should continue to fade/roll over. Most notably, the SELL-off indicator continues to march higher and is currently on +31 (see FIG 1b). Readings above +20 warn of an imminent wave of risk aversion in global markets. Other medium term models are also on/close to SELL (e.g. see our medium term risk appetite scoring system, FIG 1c).

Our **short term risk appetite models**, having moved higher last week, are **also on/close to SELL**. That includes our combined 'RAG1 plus RAG2' indicator (FIG 2a), as well as the shortest term RAG (FIG 2b). Elsewhere the short term CBOE put to call ratio is leaning towards its SELL threshold (FIG 2c). Other technical (priced based) models have either rolled over (and are NEUTRAL/mid-range, e.g. see FIG 3) or, in some cases, have moved back onto/towards BUY levels (e.g. see FIGs 3a & 3b).

The **risk reward therefore favours staying SHORT** US equities (see above for detailed recommendation).

Two way risks to this trade are multiple and include several key macro data points this week (most notably nonfarm payrolls on Friday) as well as earnings reports from 5 of the 'MAG7' companies (Apple, Microsoft, Alphabet, Amazon and Meta). The US election is also a key source of uncertainty, while the oil price bears watching closely (NB oil prices are down 4.5% overnight on news that Israel avoided attacking Iranian oil facilities this weekend, see [HERE](#) for detail).

Kind regards,

The team @ Longview Economics

*183 S&P500 companies have so far reported earnings and, in aggregate, have surprised to the upside by +6% (i.e. more than the usual 3% - 4% surprise).

FIG 1: S&P500 futures 30-day tick chart shown with overnight price action



FIG 1a: US 10-year bond yields shown with key moving averages

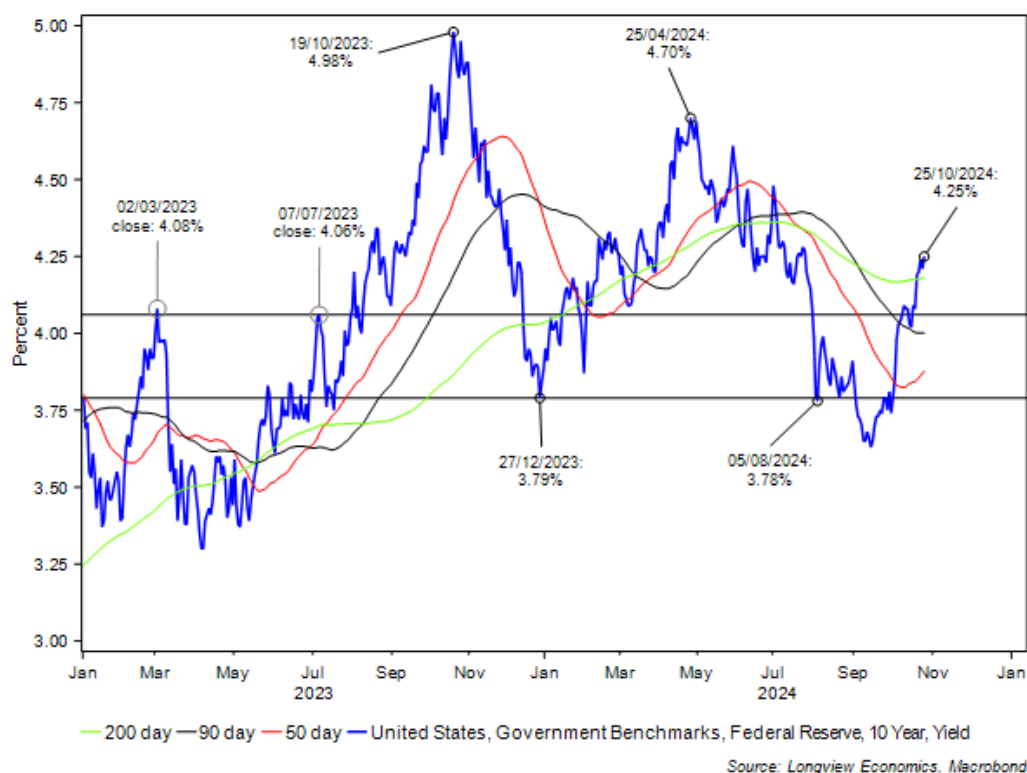


FIG 1b: Longview SELL-off indicator vs. S&P500

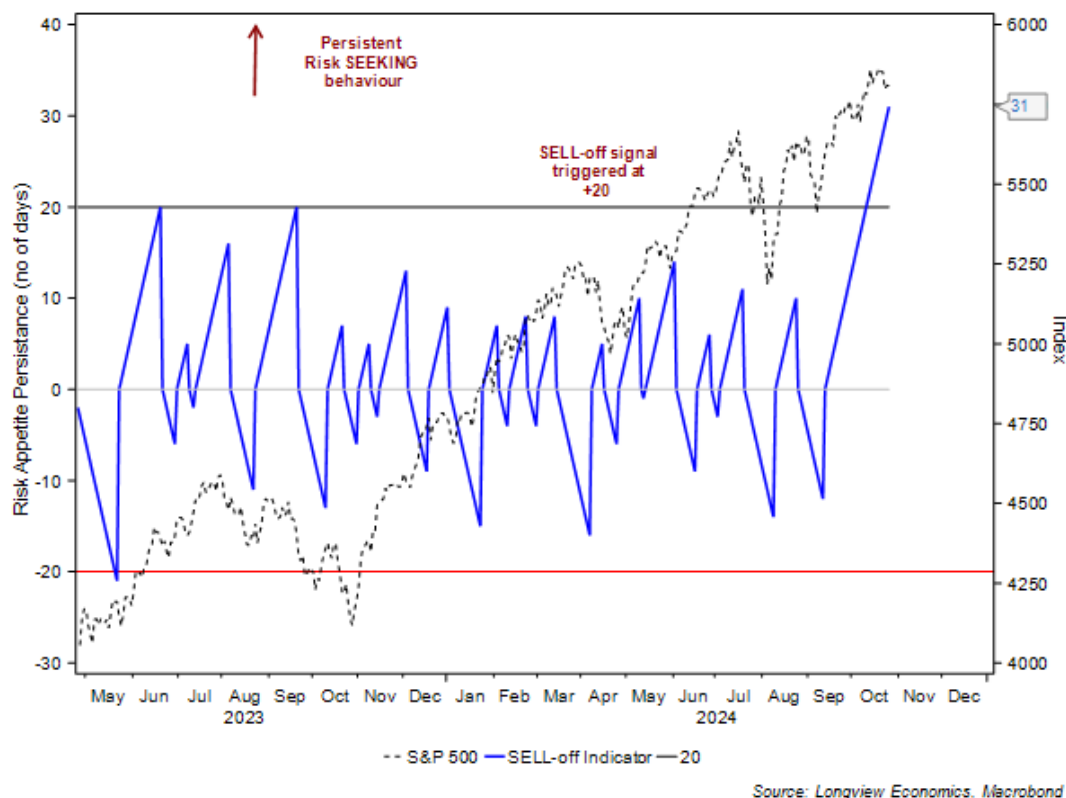
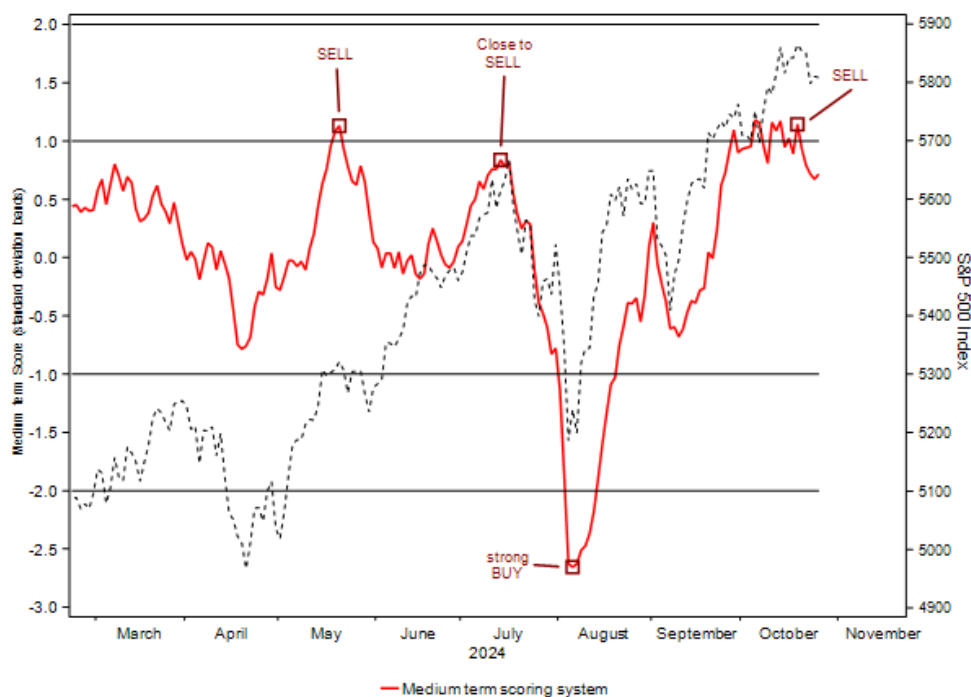


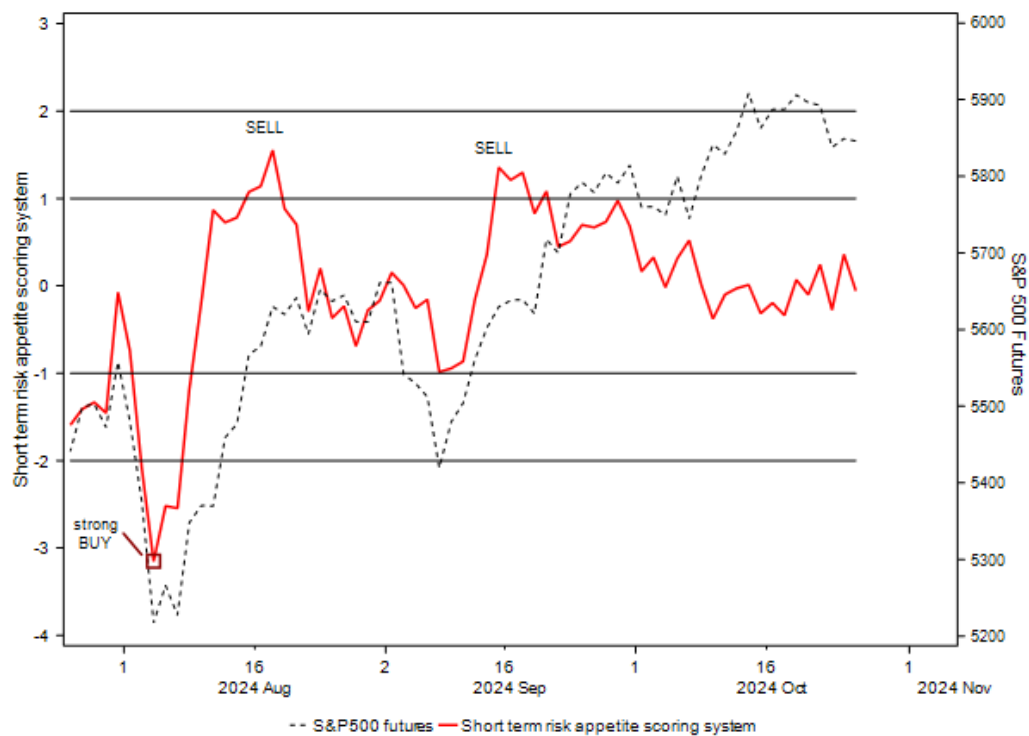
FIG 1c: Medium term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

Short-term risk appetite models are mostly on/leaning towards SELL.....

FIG 2: Longview short term **'risk appetite'** scoring system vs. S&P500



Source: Longview Economics, Macrobond

FIG 2a: Longview combined key **'risk appetite'** models (RAG1 + RAG2) vs. S&P500

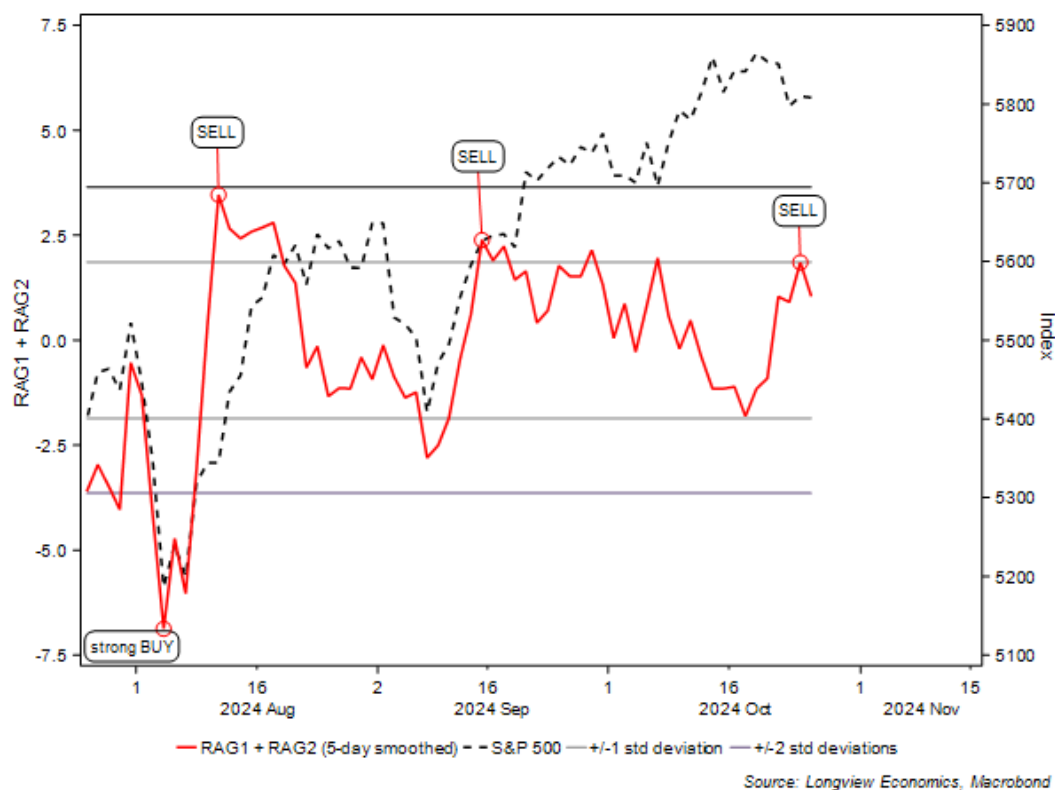


FIG 2b: Longview **shortest term** **'risk appetite'** scoring system vs. S&P500

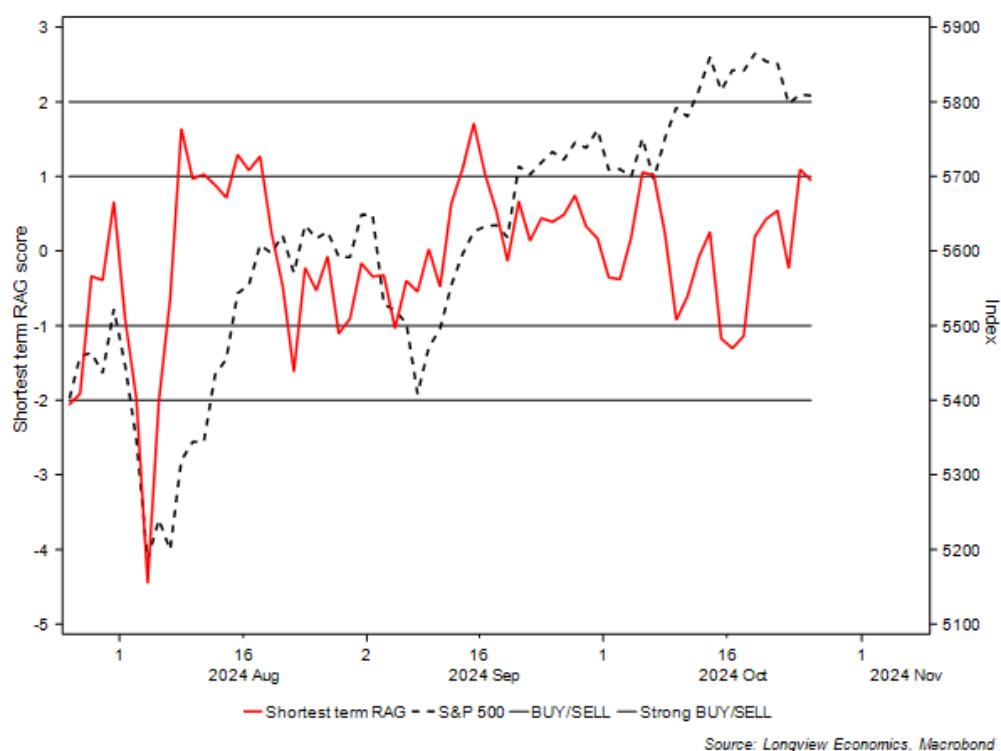
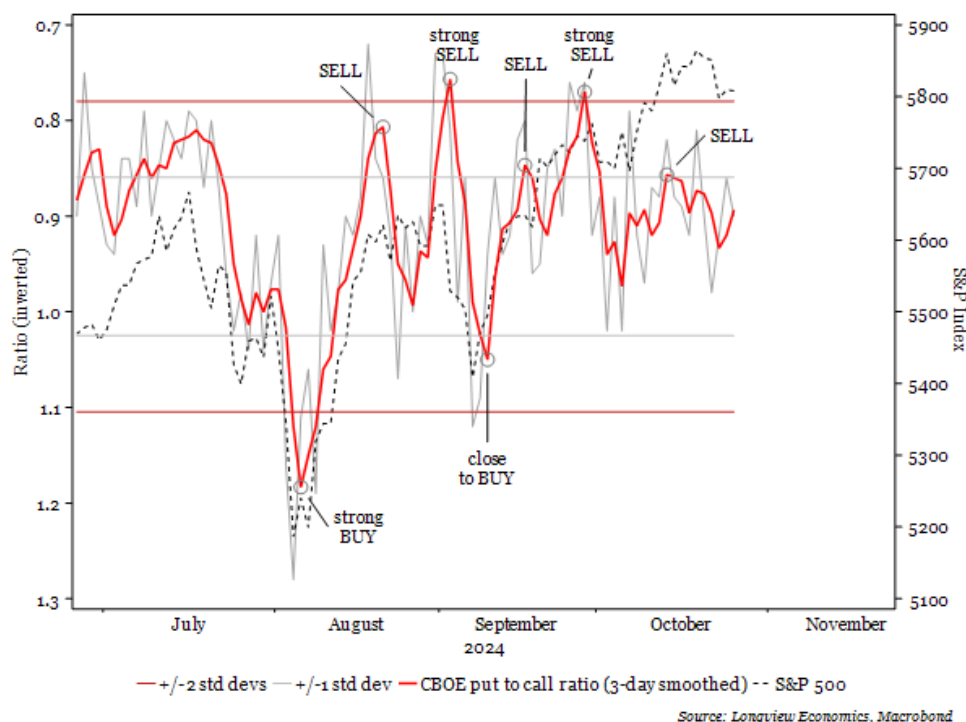


FIG 2c: CBOE put to call ratio (1 & 3 day smoothed with standard deviation bands) vs. S&P500



Short term technical models have rolled over...

FIG 3: Longview S&P500 short term 'technical' scoring system vs. S&P500 futures

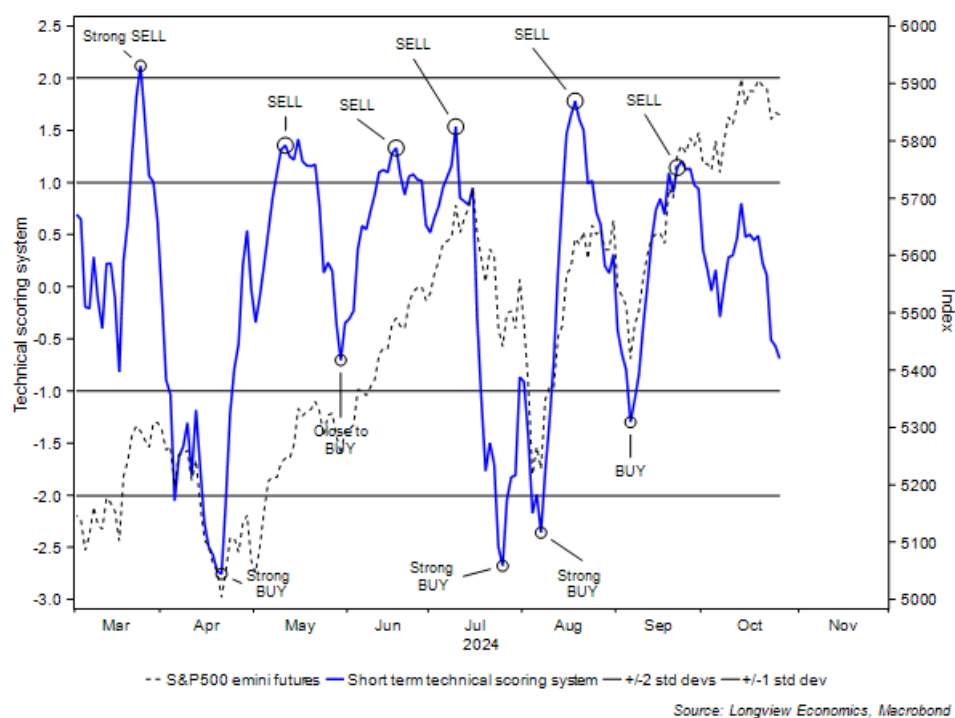


FIG 3a: Average short term 14d RSIs of US industry groups (i.e. all 24) vs. S&P500

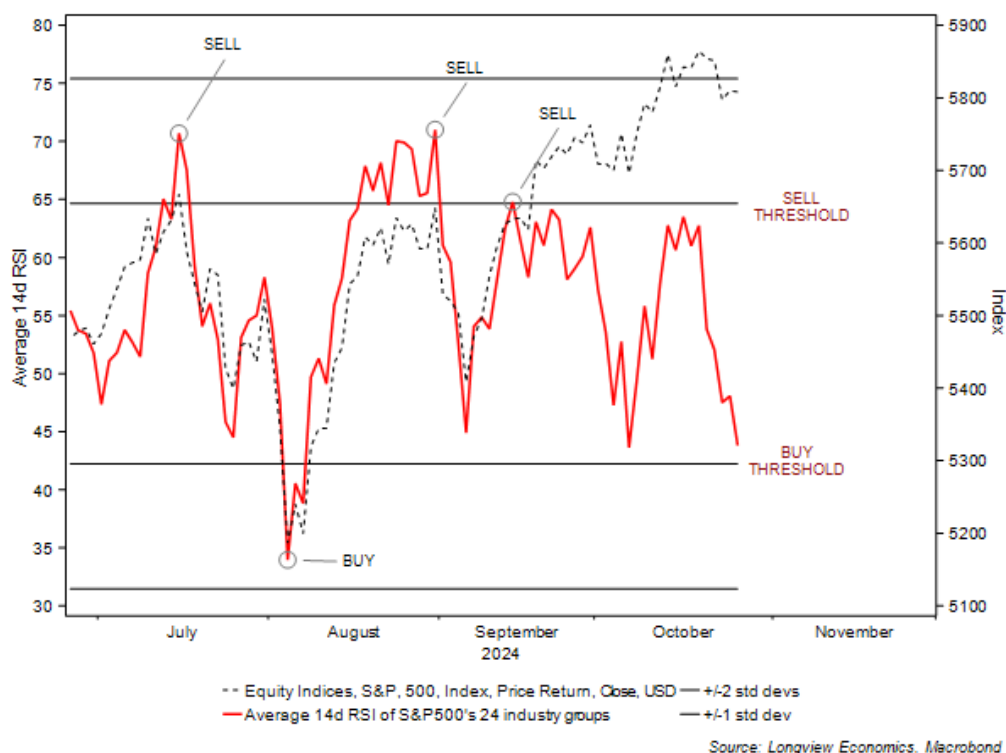
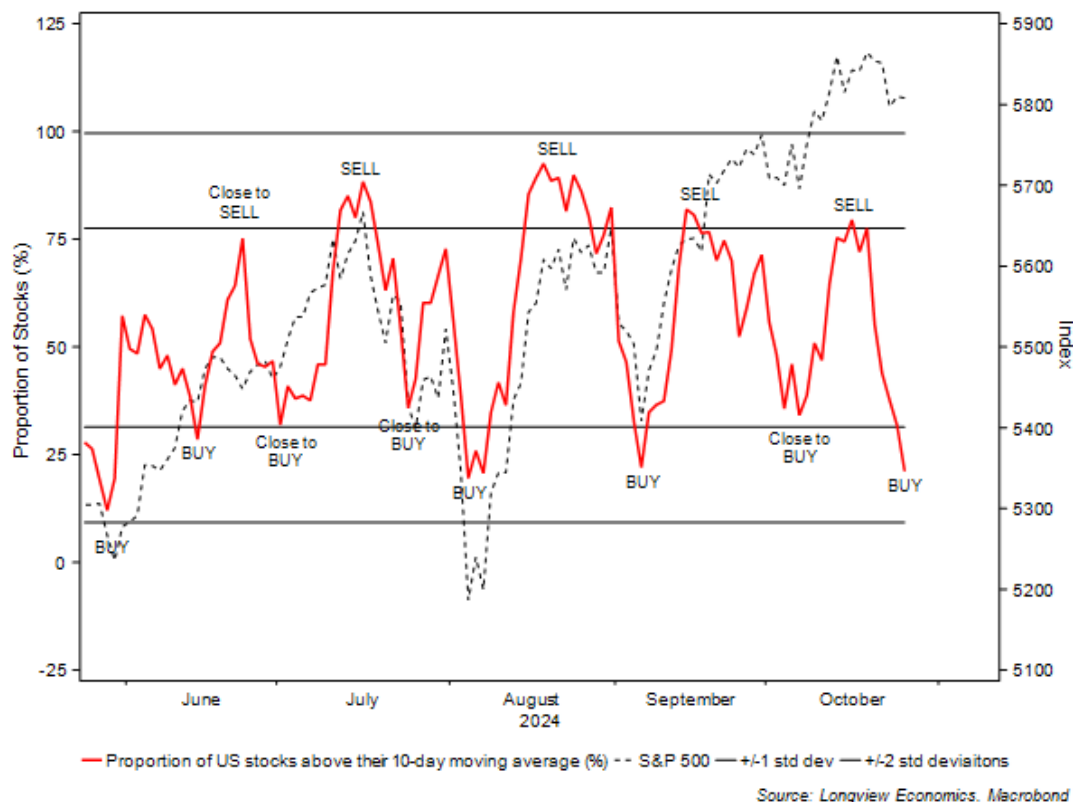


FIG 3b: Proportion of US stocks above their 10 day moving average vs. S&P500

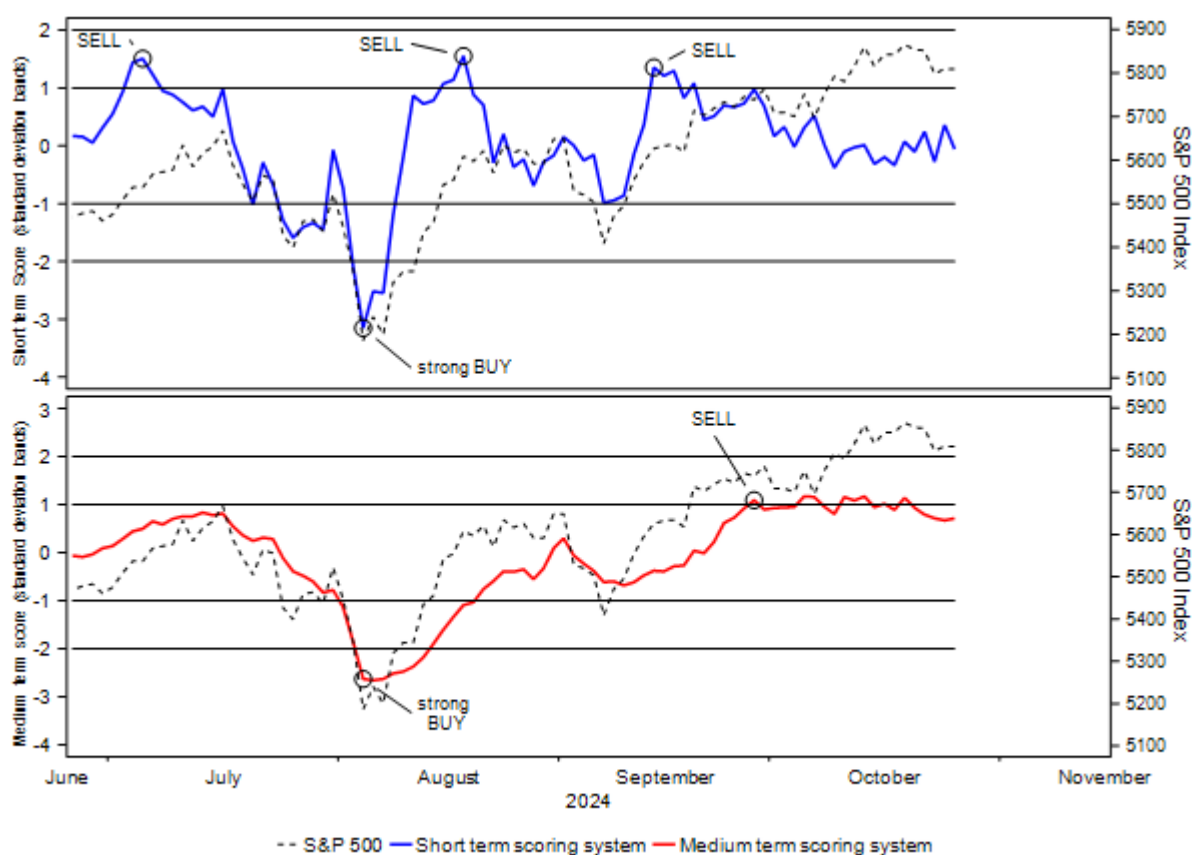


Key Longview Scoring Systems (chart below):

Short term (1 – 2 week) scoring system: **NEUTRAL**

Medium term (1 – 4 month) scoring system: **NEUTRAL** (just below SELL)

FIG A: Longview short and medium term scoring systems vs. S&P500



Source: Longview Economics, Macrobond

Key macro data/events

Key data today include: UK Lloyds business barometer (Oct, 12:01am); Spanish retail sales (Sept, 8am); UK CBI distributive trades survey (Oct, 11am); US Dallas Fed manufacturing sector activity (Oct, 2:30pm); Chinese FDI (Sept, time tentative); Japanese jobless rate (Sept, 11:30pm).

Key events today include: Speech by the ECB's Wunsch in Slovenia (9am).

Key earnings today include: Waste Management, Welltower, Cadence Design, Ford Motor, Bharti Airtel, Sun Pharma.

Definitions & other matters:

RAG = Risk Appetite Gauge

The 'Daily Risk Appetite Gauge' publication is designed to generate '1 to 2' week trading recommendations on equity indices. For trading recommendations on currencies, rates, bonds and other assets, pls see Macro-TAA trade publications.

For a medium-term recommendation please see our '1 – 4' month tactical market views which are updated at the start of each month in our Tactical Equity Asset Allocation publication (as well as occasional ad-hoc intra month Tactical Alerts). The latest update was published earlier this month on 10th October 2024. If you are not on the distribution list and would like to receive these reports pls email info@longvieweconomics.com.



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1 – 2 Week View on Risk

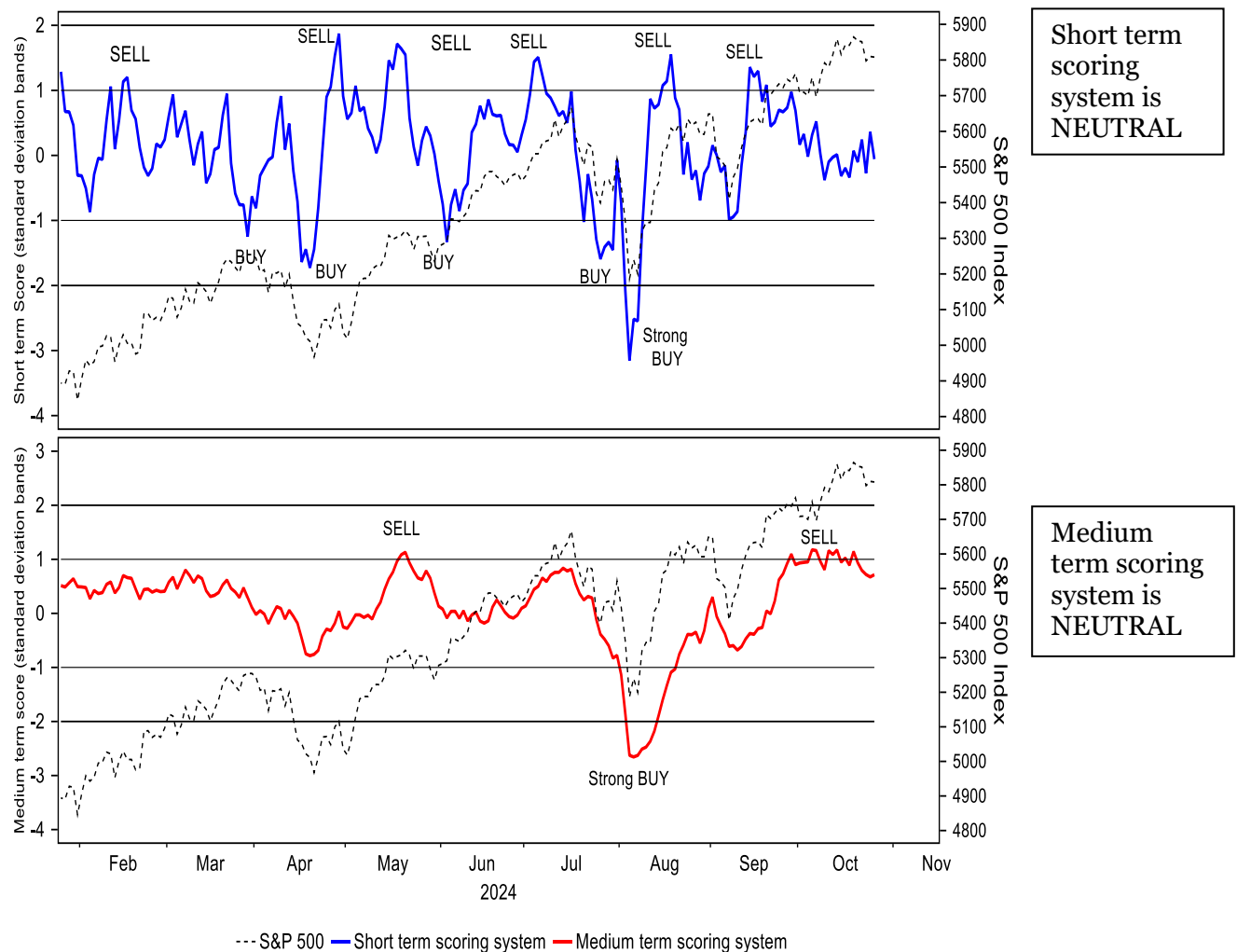
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28th October 2024

Section 1: Longview Scoring Systems (short & medium term*)

Fig 1: Longview 'short term' and 'medium term' scoring systems



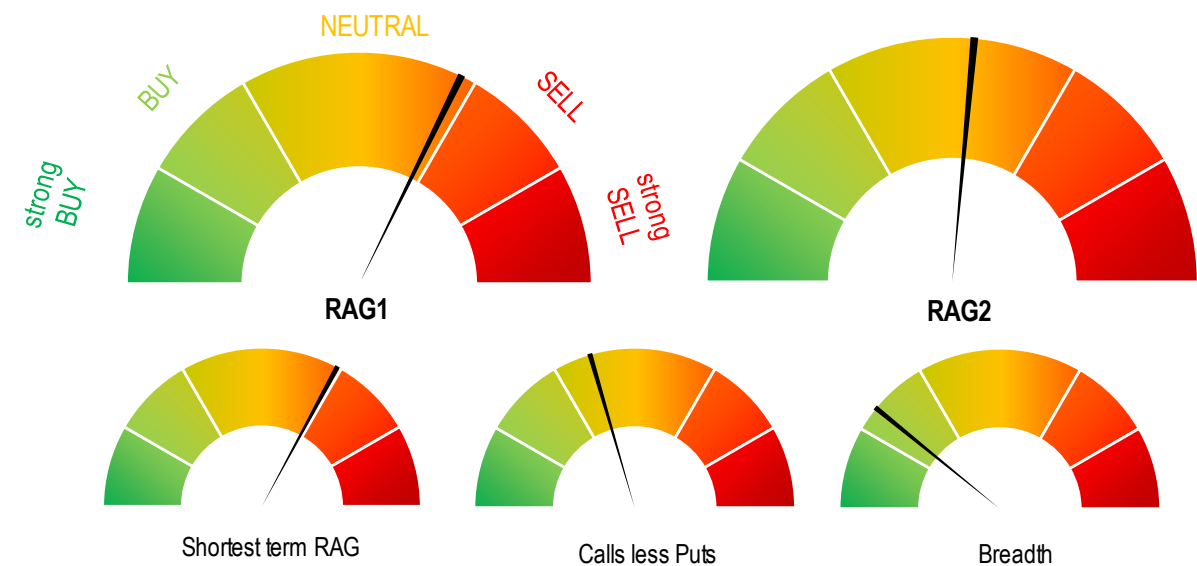
Source: Longview Economics, Macrobond

*NB short term is 1 – 2 weeks; medium term is 1 – 4 months

**Important disclosures are included at the end of this report
For explanations of indicators please see page 10**

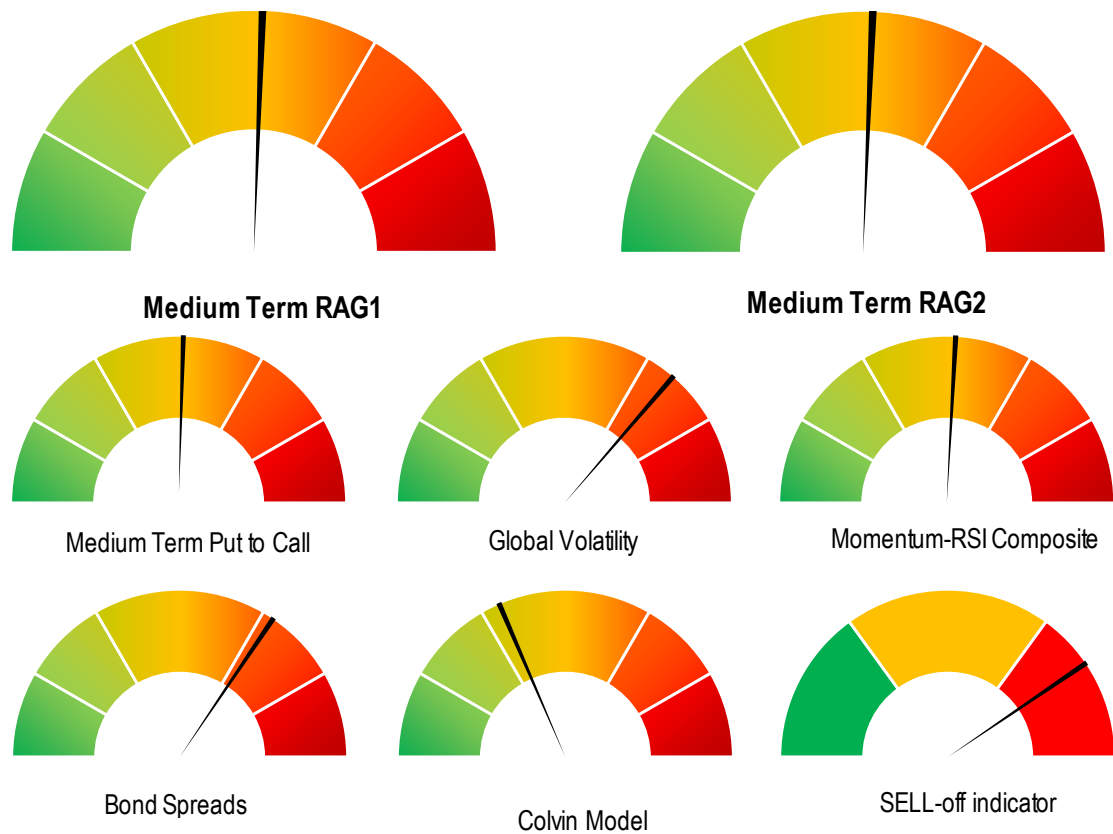
Section 1a: Summary of indicator signals**

Fig 1a: Short term models – shown as gauges using standard deviation bands



Source: Longview Economics

Fig 1b: Medium term models – shown as gauges using standard deviation bands



Source: Longview Economics

**The gauges are a pictorial representation of the strength of the current BUY, SELL or NEUTRAL signal of each indicator

Section 2: Short term (1 – 2 week) trading models

Fig 2a: RAG 1 vs. S&P 500

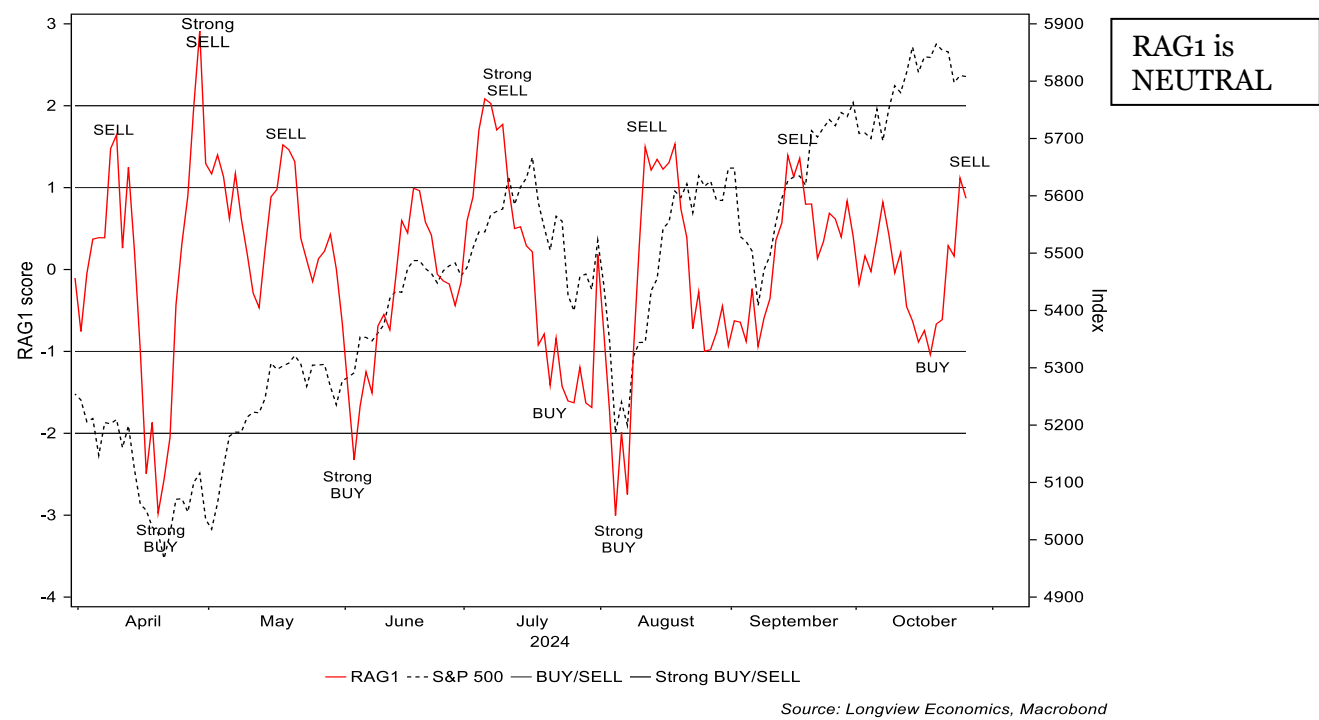
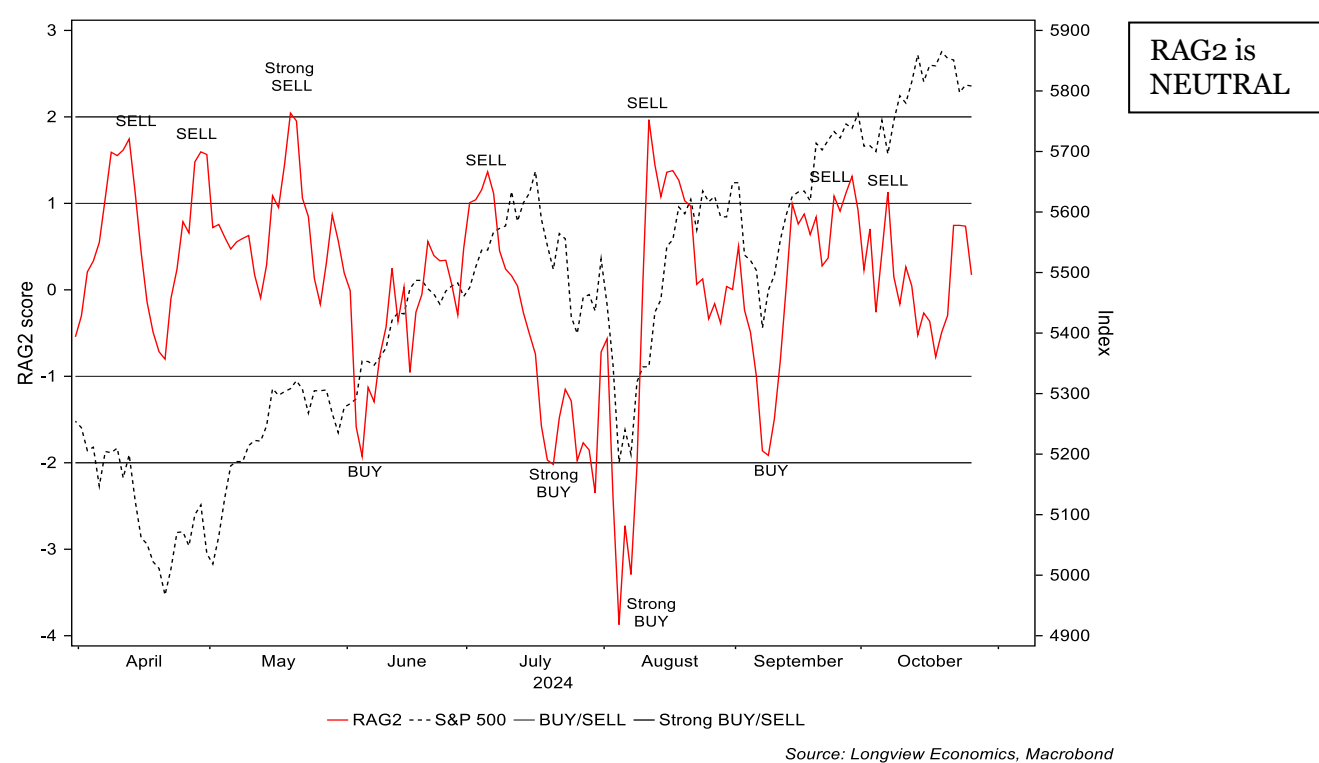


Fig 2b: RAG 2 vs. S&P 500



For explanations of indicators please see page 10

Fig 2c: Shortest term RAG (i.e. using a 3 day moving average) vs. S&P 500

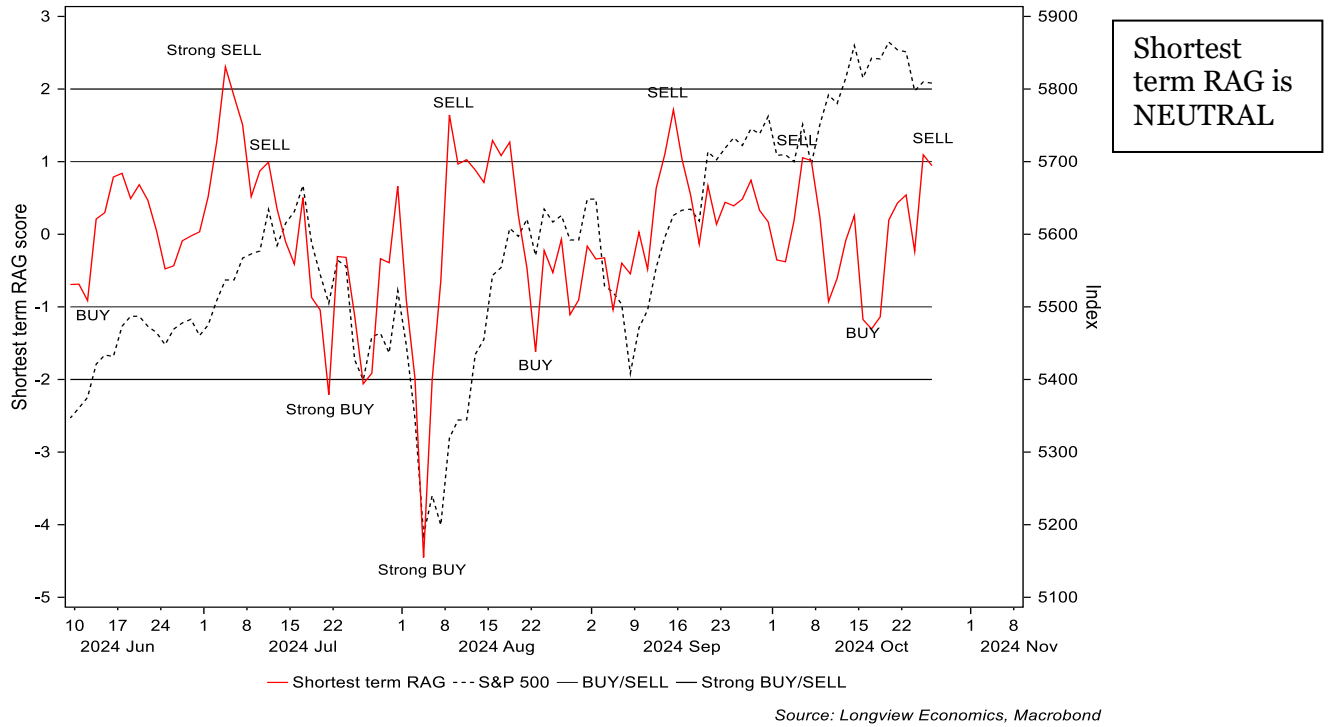
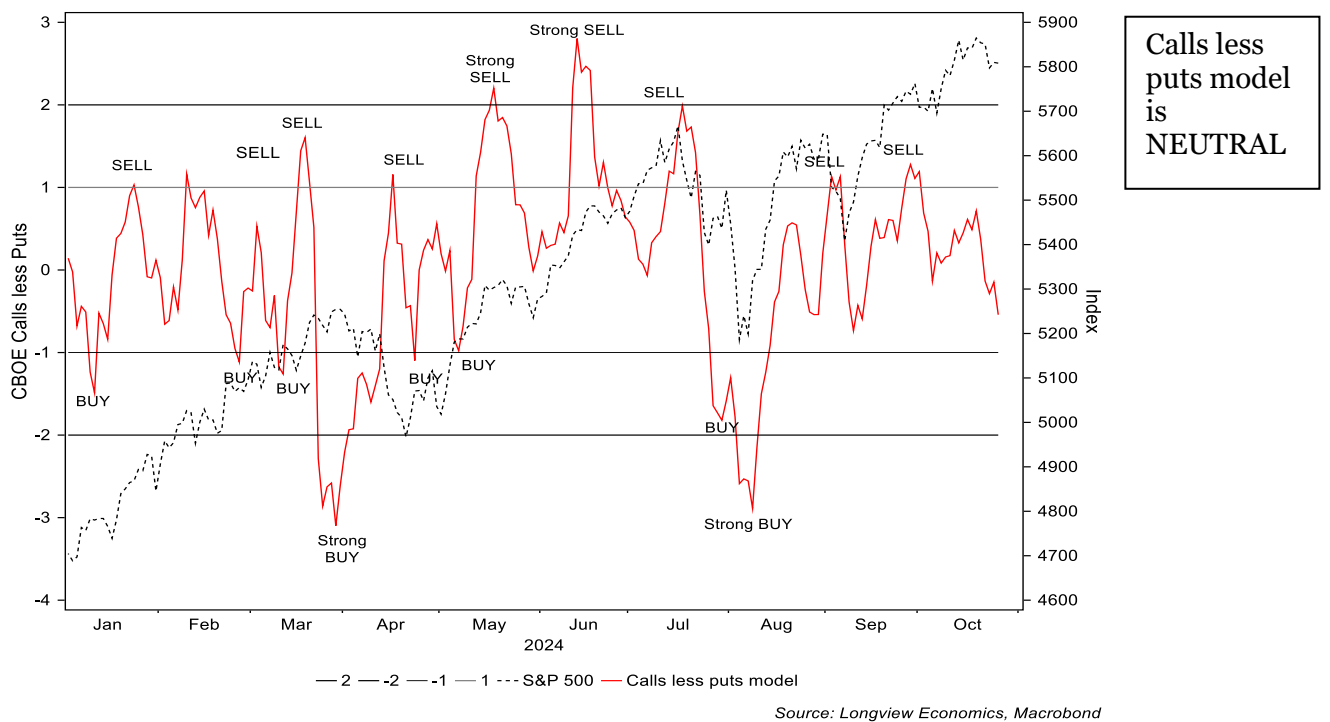
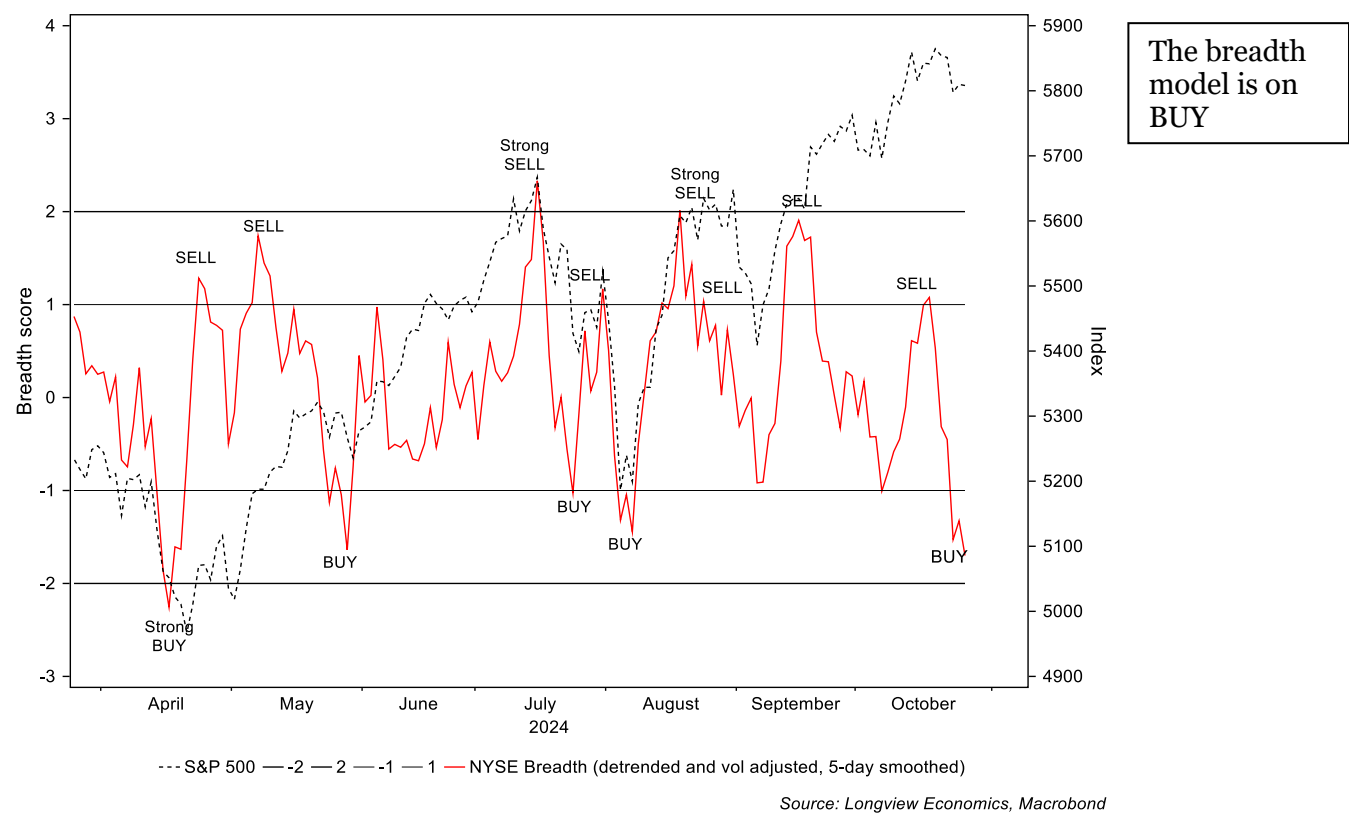


Fig 2d: CBOE calls less puts (5 day moving average) vs. S&P500



For explanations of indicators please see page 10

Fig 2e: Advancers less decliners (NYSE) – 5 day moving average vs. S&P 500



For explanations of indicators please see page 10

Section 3: Medium term (1 – 2 month) outlook

Fig 3a: Medium term RAG1 (1 – 2 month view) vs. S&P 500

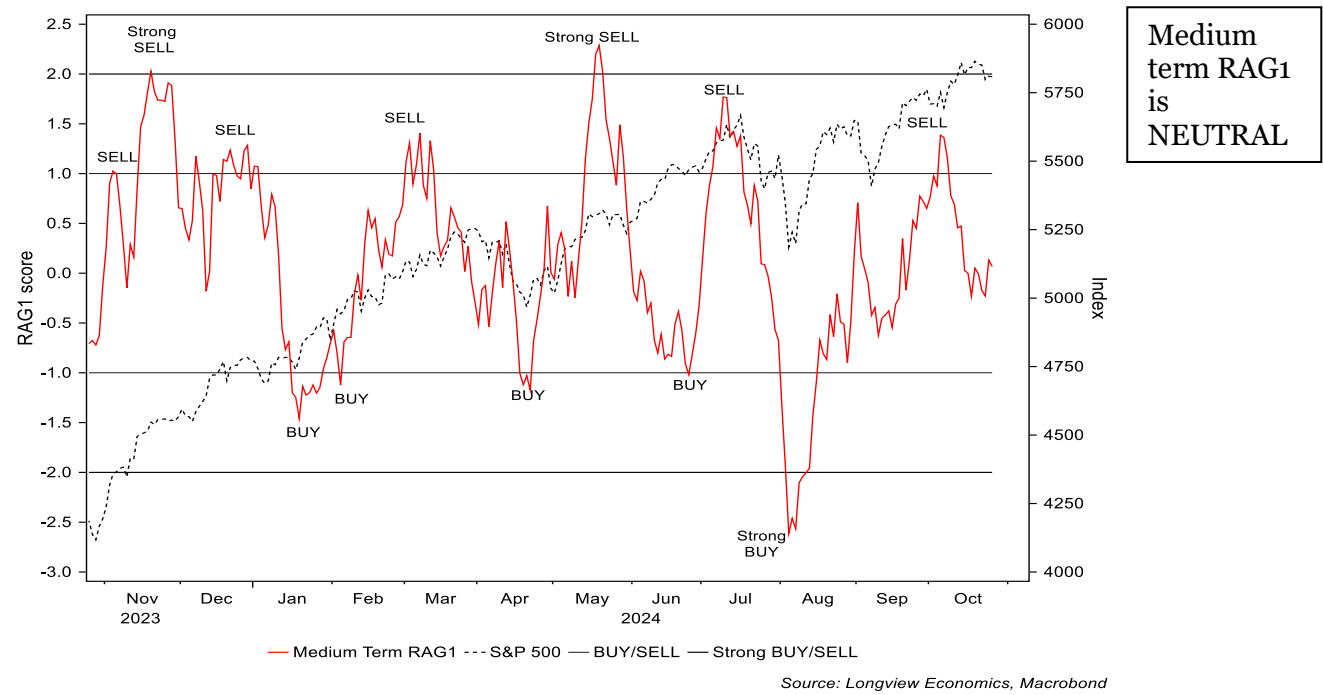
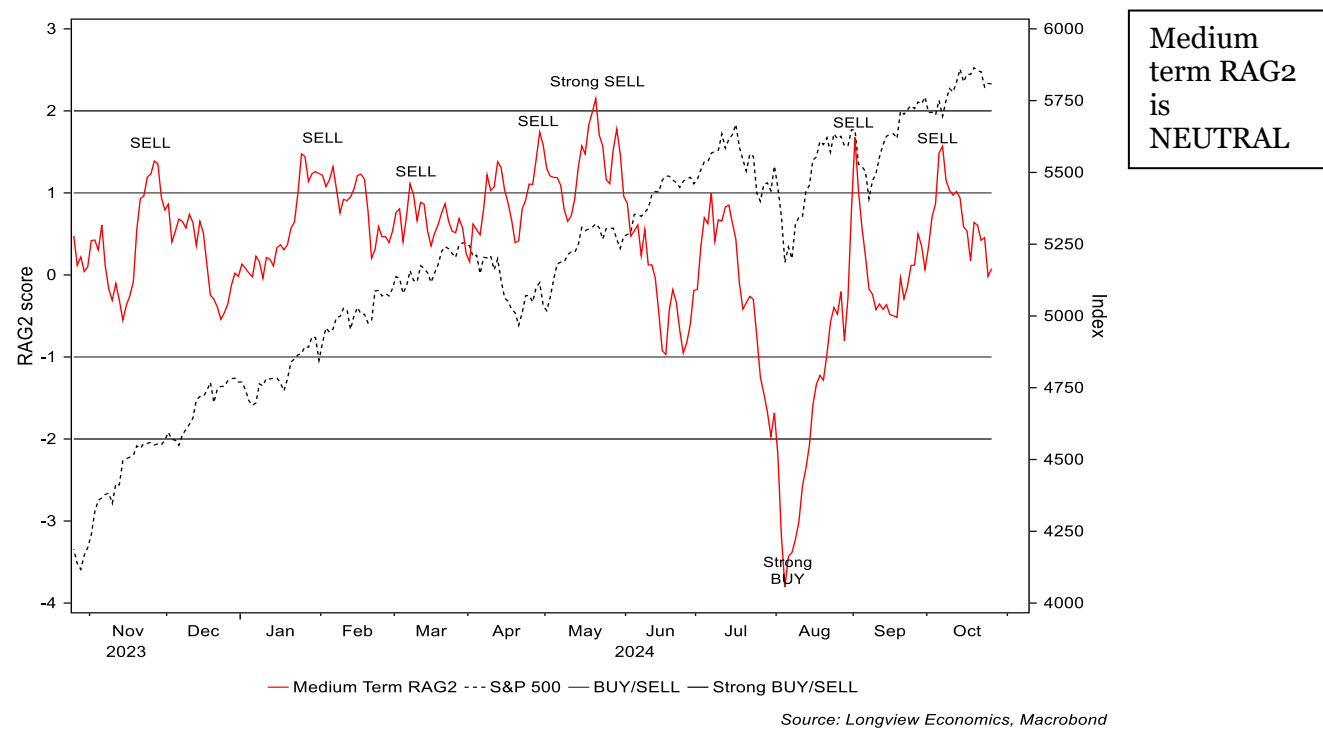


Fig 3b: Medium term RAG2 (1 – 2 month view) vs. S&P 500



For explanations of indicators please see page 10

Fig 3c: SELL-off indicator (shown vs. S&P500)

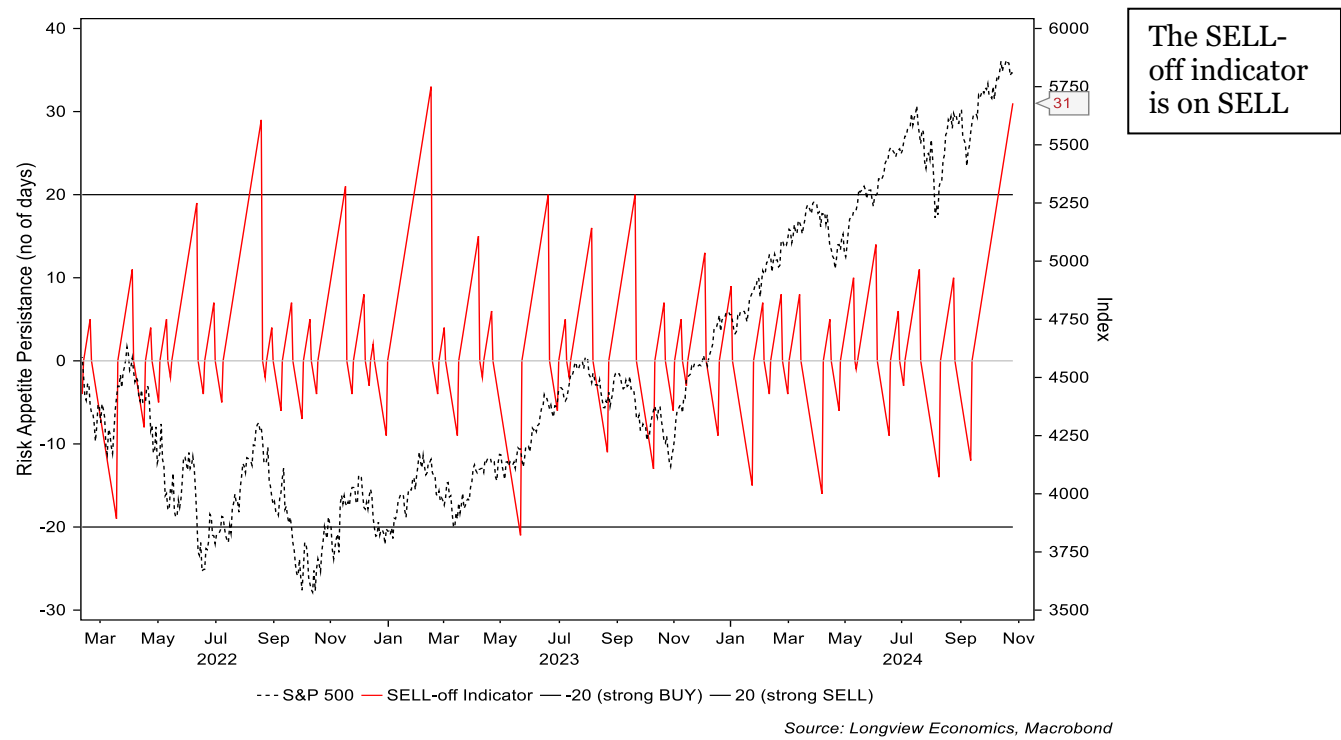
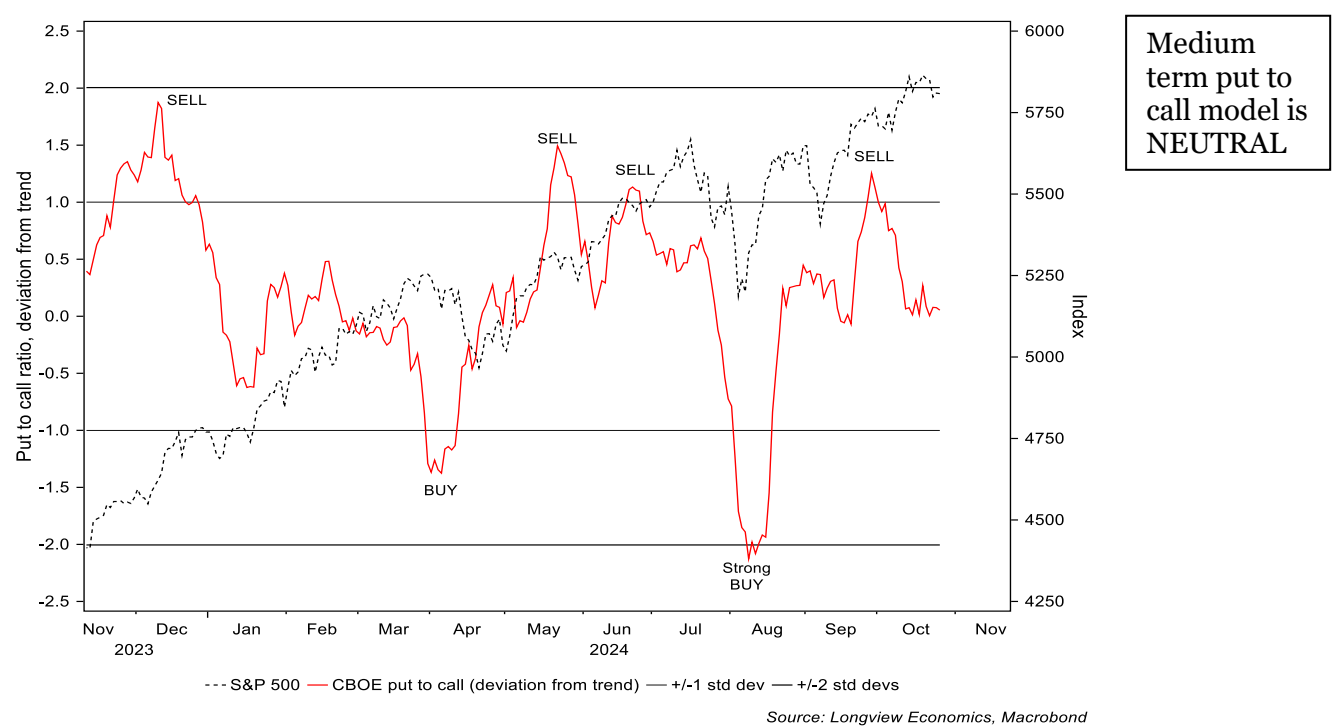


Fig 3d: CBOE put to call trend deviation model vs. S&P500



For explanations of indicators please see page 10

Fig 3e: Global volatility (deviation from trend) model vs. S&P500

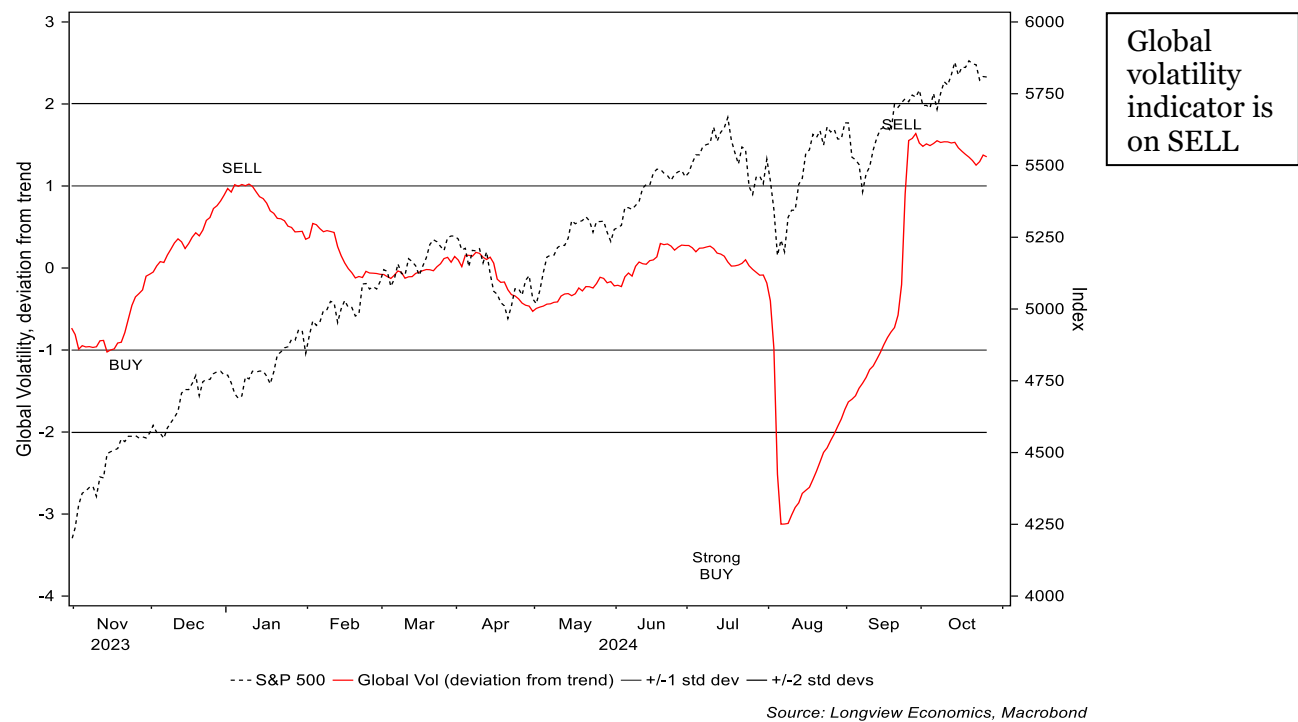


Fig 3f: Longview Momentum-RSI composite model vs. S&P 500

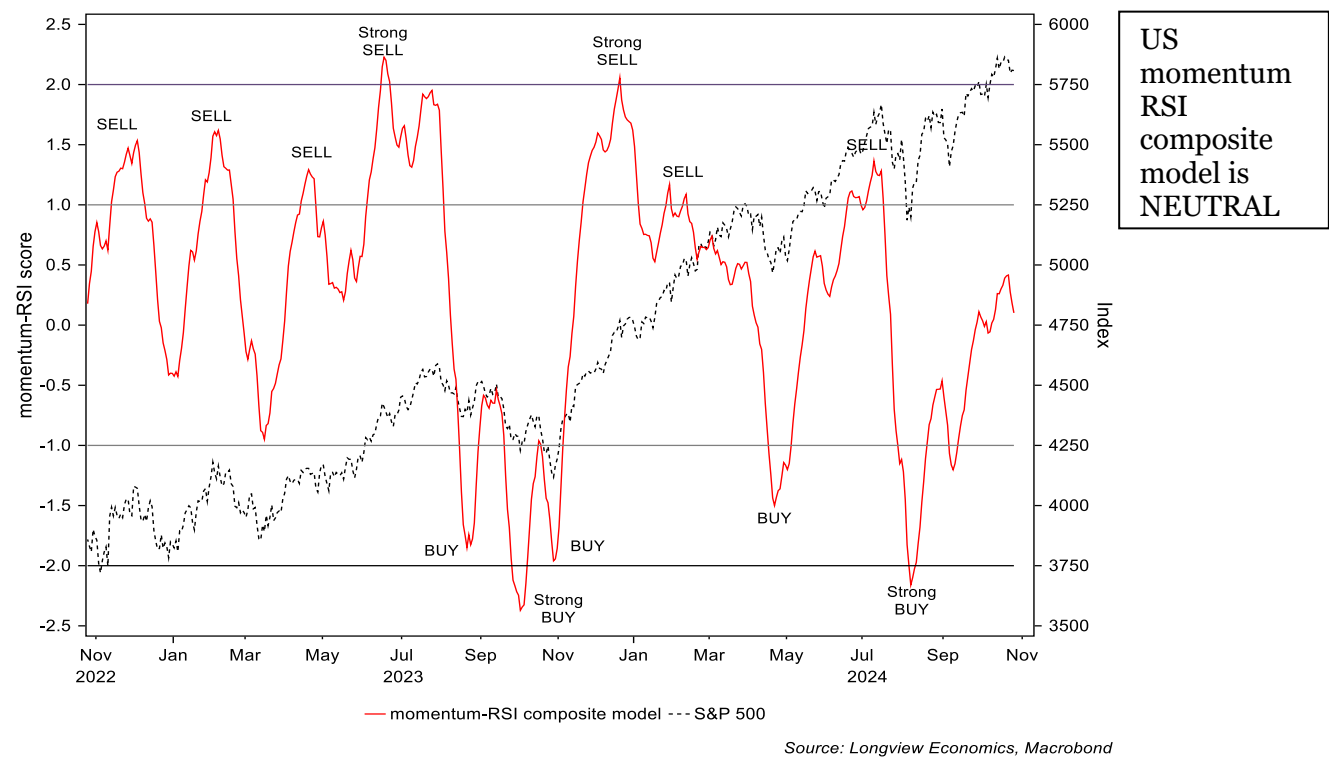
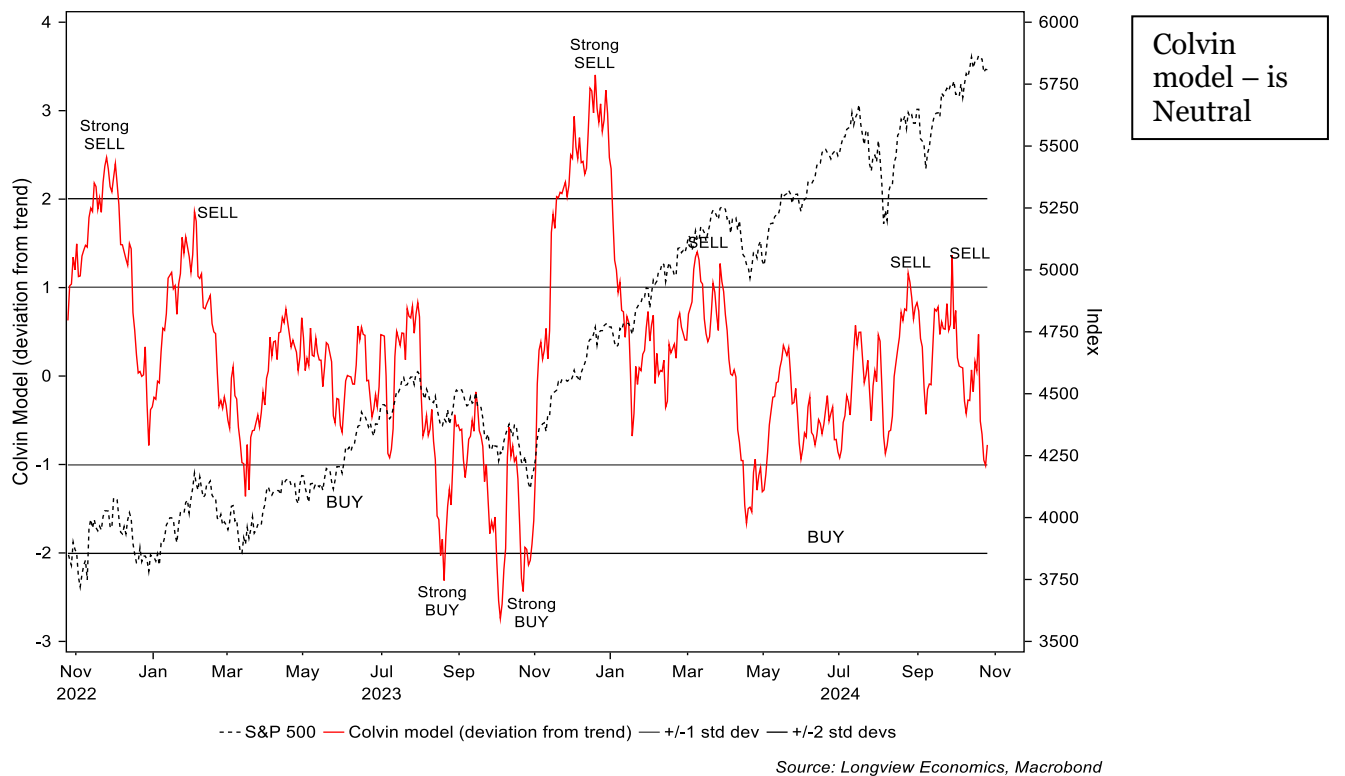


Fig 3g: High yield corporate bond spreads deviation from trend model vs. S&P500



Fig 3h: Colvin model (deviation from trend) vs. S&P500



For explanations of indicators please see page 10

Appendix: Model Explanations

Model 2a-b: Short term RAG1 & RAG2 (risk appetite gauge)

RAG1&2 each draw upon the volatility and price movement of approximately 70 financial instruments each day. By plotting risk curves we derive the risk appetite of the investment community as a whole on any and every day's trading in financial markets.

Model 2c: Shortest term RAG

This RAG model is a shorter term moving average risk appetite model than model 2a. By being shorter term in nature it helps to more accurately time the entry day for a specific trade.

Model 3a – 3b: Medium term RAGs

This is a medium term version of the risk appetite models. This is designed to forecast the direction of equity markets on a 1 – 2 month timeframe.

Model 3c: SELL-off indicator

The SELL-off indicator measures the number of days our RAG system has been on a SELL signal (i.e. as a positive number) and the number of days which it has been on a BUY signal (negative reading). When the indicator moves above +20 (i.e. risk appetite has been persistently high for a long period of time) this indicator warns of a potential sell-off in equity markets (and other risky assets). Most major SELL-offs in equity markets in recent years have been accompanied/foreshadowed by a reading of over +20.

Model 3d: CBOE put to call (deviation from trend model)

This model measures movements in the put to call ratio from its medium term moving average trend line. A sharp move higher (lower) in the put to call ratio indicates heightened levels of fear (complacency) and is used as a contrarian indicator. NB Given that the absolute put to call ratio has historically undergone long term structural trends, a deviation from trend model correlates more closely with medium term trends in equities.

Model 3e: Global volatility (deviation from trend model)

The (underlying) global volatility indicator measures the degree of complacency in financial prices. It achieves this by measuring short term realised volatility in over 150 financial assets from around the globe and across the asset class spectrum. A low reading indicates that only a low level of risk is priced into financial markets (and vice versa). Given, though, that volatility is an asymmetric measure of risk we use a deviation from trend version – which correlates more closely with trends in equities.

Model 3f: Momentum Model

Based on the rate of acceleration (or deceleration) of the momentum of the convergence (or divergence) of a short and a long term moving average of the equity or other price index. The concept is equally applicable to any financial market and the signals are particularly pertinent at extremes.

Model 3g: High yield corporate bond spreads (deviation from trend model)

This model measures movements in the spread of high yield corporate bonds over US Treasury yields from its moving average trend line. Given that the spread is an asymmetric measure of risk we use a deviation from trend version – which correlates more closely with trends in equities.

Model 3h: Colvin model

The Colvin model measures global market breadth i.e. the strength of the advance (or decline) in global risk asset prices. Extreme deviations from trend reflect rapid advances/declines in asset prices thereby leading to and generating overbought/oversold signals.

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